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RUEHMN/AMEMBASSY MONTEVIDEO 2457
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RUCPDO/USDOC WASHDC 2914
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC
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USDOC FOR 4332/ITA/MAC/WH/OLAC
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SUBJECT: BRAZILIAN FIRMS LOBBY TO HOLD ONTO GSP BENEFITS

Summary

11. (U) The American Chamber of Commerce (Amcham) and Sao Paulo Federation of Industries (FIESP) met with representatives of the U.S. Government Accountability Office (GAO) on September 13 and 14 to discuss Brazil's inclusion in the Generalized System of Preferences (GSP) trade program. Amcham and FIESP underscored that U.S. companies and consumers benefit from Brazil's inclusion in the program, and that without GSP benefits, many of the items on the list would be replaced by Chinese products. Although there are clear financial benefits of the GSP program for Brazilian producers, both organizations noted that many companies are not taking advantage of GSP. A lack of information from the Brazilian government regarding the program as well as a focus on the Brazilian domestic market have resulted in less than 100 percent utilization of the program. According to both groups, keeping GSP in Brazil would provide clear benefits for U.S. consumers as well as U.S. foreign policy in the region. End Summary.

GSP Important for Brazil and the U.S.

12. (U) The GAO Director and Assistant Director for the International Affairs and Trade team visited Brazil to review the Generalized System of Preferences as part of a larger congressionally mandated review of five U.S. trade preferences programs. Both Amcham and FIESP emphasized the importance of GSP benefits for their member businesses in Brazil; Brazil is the fourth largest beneficiary of GSP, behind Angola, India, and Thailand. (Note: Angola is the largest recipient of GSP benefits almost exclusively due to its petroleum exports to the U.S. End Note.) According to FIESP, companies in Brazil employ more than 400,000 Brazilians as a result of the export of Brazilian goods via GSP to the U.S., and Brazil exported US\$3.7 billion in goods covered by

GSP, which is about 15 percent of Brazilian exports to the U.S.

¶3. (U) The Sao Paulo Amcham made three trips to Washington in 2006 to underscore the benefits that U.S. consumers and companies receive from Brazil's inclusion in the GSP program. U.S. companies in Brazil enjoy tariff free access for intra-company goods and for other U.S. trade partners and they have made significant capital investments in Brazil to maximize these benefits. Rejane Darold from Eaton Corporation told GAO that the GSP program allows the company to diversify its production line. For instance, Eaton's Brazilian subsidiary makes several items on a single production line, but on a much smaller scale than the company could produce in the U.S. Thus Eaton is able to fill orders from its subsidiary in Brazil that would be uneconomical in its U.S. facilities that tend to focus on large volumes of one, single product. In addition, the Brazilian subsidiary imports used equipment from its U.S. partners, helping to provide lower-cost goods to their U.S. customers while creating a market for U.S. exports.

¶4. (U) Brazilian firms impressed upon the GAO that U.S. companies and consumers are equally benefiting from Brazilian firms' use of GSP, and the loss of GSP for Brazil would mean the loss of U.S. jobs in many industries that use Brazilian intermediate inputs. Roughly 75 percent of Brazilian exports in 2006 were raw materials and intermediate products that undergo further assembly and processing in the U.S. Tariff-free access for those goods lowers prices of end products to U.S. consumers and provides manufacturing and assembly employment opportunities within the U.S. As an example, representatives of Duratex, a wood products company, told the GAO that Brazilian companies ship wood for doors, which are then assembled in the U.S. while their closest competitor, China, ships finished products. Removing these types of wood products from GSP could potentially lead them to ship their partially finished wood to

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China for final assembly thus removing U.S. manufacturers from the value chain.

GSP Reaching Most Impoverished Areas

¶5. (U) The Amcham President underscored that among the organization's chief priorities is clarifying that Brazil's inclusion in the GSP program fulfills the program's mission of helping less developed countries become more active in trade. He noted there are "many Brazils" and evaluating Brazil's GSP eligibility based on average socio-economic indicators does not give a real indication of Brazil's extreme poverty, especially in the northeast where nearly one-fifth of goods exported under GSP in 2006 originated. In fact, as a percentage, the impoverished northeast benefited the most from GSP exports. He emphasized that a careful review of the GSP program should look closely at individual products and their impact on the local economy instead of focusing on the country as a whole. Stating that Brazil has a large economy and therefore shouldn't benefit from GSP, he opined, really loses sight of the vast benefits the program is bringing to under-developed areas of Brazil.

Without GSP, China Would Dominate

¶6. (U) Both FIESP and Amcham roundtable participants noted that other developing countries would be unlikely to replace the majority of Brazilian exports eligible under GSP if Brazilian suppliers were excluded from the program. To emphasize this point, FIESP representatives stated that China is the only competitor for 75 percent of Brazilian products receiving GSP benefits.

¶7. (U) Several companies noted that their products would become uncompetitive without the tariff benefits, especially for products and sectors where their profit margins would not cover the tariffs. In fact, several companies complained that their products already had been excluded when they reached the program's competitive need limitations (CNL). Carlos Monnerat, the Export and Chartering Manager of Caraiba Metals (a subsidiary of Grupo Paranapema that sells copper products) told the GAO directors on a visit to their

plant that Caraiba had to cut 40 jobs at its northeast factory because the company lost GSP benefits last year, making the export of copper wire rods to the U.S. market no longer profitable. In 2006 half of Caraiba's exports and a quarter of the company's overall sales were to the U.S.; however, Caraiba exceeded the CNL of \$120 million because it operates on long-term contracts, and could not decrease its export volume of copper wire rods to compensate for the higher international copper index price. (Note: Caraiba's price point is based on the international copper price plus a small margin to cover production, logistics and business costs. End Note.)

GSP Benefits Big, But Not Meeting Full Potential

¶18. (U) Brazilian exports to the U.S. under the GSP have steadily increased in the last few years, however many Brazilian companies are not taking full advantage of the benefits. More than 3,000 Brazilian products are eligible under GSP, but because of a lack of awareness either of the existence of the program or of the procedures for application to the program, many U.S. importers are paying unnecessary import tariffs on eligible items. In total, some 80% of eligible products are being covered, but FIESP estimates this still represents an economic waste of \$870 million USD in tariffs. Amcham members also noted that the companies that have the most to benefit from GSP are the least prepared to deal with the administrative steps to qualifying for GSP. A representative from the chemicals sector cited two reasons that many Brazilian companies

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don't take advantage of the GSP benefits--ignorance about the program and the temporary nature of the program, which limits the incentives to make large up-front investments. Eaton said US brokers often bear the administrative burden and are unaware of the procedures for the GSP program thus creating a substantial transaction cost for the company.

¶19. (U) The Amcham members also expressed disappointment at the lack of interest and action on the Brazilian government's part to inform potential beneficiaries about GSP and other trade preference programs. In 2004, Amcham began a campaign to increase private sector awareness about GSP and has been proactively contacting potential beneficiaries about the program. Amcham also publishes a yearly guide to filing for GSP benefits and a substantial yearly evaluation of GSP in Brazil. Three years ago, Amcham requested that USTR supply a list of eligible products, and both Amcham and USTR publish a guide to qualifying for GSP benefits.

Comment

¶10. (U) In spite of the size of its economy, Brazil still harbors many of the conditions that GSP was designed to ameliorate. The impoverished northeast in particular has enjoyed substantial gains from GSP. U.S. consumers also benefit from the lower prices of many of the intermediate goods which Brazil supplies to U.S. producers. There appears to be a negative impact on investment in GSP eligible products in Brazil due to the annual reviews which the business community says keeps investors skittish on taking a long-term view. Fear of losing GSP and having to compete directly with China in many of these items has resulted in a lower focus on GSP than otherwise would be expected. While Brazil has a long way to go to become an export driven economy, GSP has obvious tangible benefits for both producers in Brazil and U.S. consumers. End Comment.